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FEATURED Q&A

Are Banks Working Together Enough to Prevent Crimes?

Financial entities' information-sharing efforts are among their initiatives to prevent financial crimes, such as money laundering. // File Photo: TaxRebate.org.uk.

Q Financial messaging service provider SWIFT said in January that more than 2,000 financial institutions worldwide had signed up for its centralized Know Your Customer (KYC) registry, through which companies can share information required for KYC compliance. How well does the registry and similar information-sharing efforts, such as Thomson Reuters Org ID and others, help banks with their compliance programs? What more must international financial institutions do to mitigate the risks of financial crimes? Are banks in Latin America and the Caribbean doing a good job of cooperating with each other? Are more global standards needed in this area, and if so, what should they include?

A Matias Mora, managing director of Berkeley Research Group in Panama City: "The increasingly globalized and ever-changing economic environment raises the level of complexity with regard to banks' proper compliance of Know Your Customer (KYC) policies. The information-sharing systems allow banks to access databases with information that credible institutions have previously verified and validated. This, in turn, allows banks to increase their operational efficiency by enabling them to perform routine checks more quickly, at a lower cost and with greater security over the information. Continuous training is key to mitigating the risks of financial crime, as criminals are constantly looking to generate new schemes for money laundering; as such, it is important that banks have a rigorous training program to prevent money laundering. The new compliance culture has transferred responsibilities from banks' back offices to their front desks, which are

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The deal comes just five months after BTG Pactual agreed to buy Zurich-based BSI.

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Citigroup said it is planning to sell its consumer banking operations in Brazil, Argentina and Colombia. CEO Michael Corbat said the bank will focus its business in those countries on its institutional clients.

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Corbat // File Photo: Citigroup.

BANKING NEWS

Citi to Sell Consumer Banking Units in Three Countries

Citigroup announced Feb. 19 that it is planning to sell its consumer banking units in Brazil, Argentina and Colombia, the New York-based financial services company said. It will transfer the units from its Citicorp unit into Citi Holdings and will begin reporting the units' financial results as part of Citi Holdings as of the current quarter. Citi added that it will maintain a presence in the three South American countries and will keep its corporate and institutional clients in the three countries. "While our consumer businesses in Brazil, Argentina and Colombia are of high quality, we have decided to focus our efforts on opportunities with our institutional clients in these countries and throughout the wider region," Citi's chief executive officer, Michael Corbat, said in a statement. "We allocate our resources where they can generate the best possible returns for our shareholders." The company said the consumer units in the three South American countries include approximately $6 billion in assets. They did not have a "material impact" on Citigroup's net income last year, the company added.

> **"We allocate our resources where they can generate the best possible returns for our shareholders."**
> **— Michael Corbat**

U.S. Bancorp Eyes Sale of Stake in Elavon do Brasil

U.S. Bancorp is likely to sell its stake in Brazilian credit-card processing venture Elavon do Brasil, Reuters reported Feb. 10, citing two unnamed sources familiar with the matter. Citigroup has a 49 percent stake in the venture and has been in negotiations to sell it to Elo Participações, a holding company that Banco Bradesco and Banco do Brasil control. However, now that U.S. Bancorp is looking to sell its stake as well, Elo is likely to buy the entire company, one of the sources told Reuters. None of the sources said what price the company might fetch, and they added that Brazil's antitrust regulator, Cade, might slow or complicate any deal.

INSURANCE NEWS

EFG Buying Pactual's Swiss Unit for $1.34 Billion

Zurich-based multinational private banking group EFG International has agreed to buy BSI, the Swiss private banking unit of Brazil's BTG Pactual for 1.33 billion Swiss francs ($1.34 billion), Reuters reported Feb. 22. The deal could make EFG among the world's top five money managers for the wealthy, according to the wire service. EFG plans to pay for the acquisition using cash and stock. The company plans to incorporate BSI and make BTG Pactual the

Esteves // File Photo: Harvard Business School.

second-largest partner in the combined firm after the Greek Latsis family. The deal comes five months after BTG Pactual agreed to buy BSI for 1.25 billion francs. BTG pactual's sale of BSI will bring much-needed cash to the Brazilian bank following the arrest last November of founder Andre Esteves in connection with

NEWS BRIEFS

Families of Mexican Drug Gang Victims Sue HSBC

Families of the U.S. citizens murdered by drug gangs in Mexico are suing British banking and financial services company HSBC, alleging the bank let cartels launder billions of dollars in order to operate their businesses, Reuters reported Feb. 10. The bank has already paid nearly $2 billion in penalties since December 2012 to resolve charges that it failed to stop hundreds of millions of dollars in drug money from entering the bank through Mexico. The U.S. government has chosen New York prosecutor Michael Cherkasky to monitor HSBC's compliance efforts, and his reports so far have cited issues with the bank's progress.

Peruvian Private Banks See 9% Growth in Loan Portfolio

The total loan portfolio of private banks in Peru grew in January to $65.29 million, a 9 percent increase as compared to previous months, the Peruvian Bank Association, Asbanc, said Feb. 19, state-run news agency Andina reported. Local currency loans drove the increase and accounted for 33 percent of the outstanding loans, the association said. "The constant and sustained loan increase was reflected on the upward trend experienced by loan ratio/GDP," said Asbanc.

UBS Hires Bassan to Lead Brazil Business: Report

Banking giant UBS has hired Daniel Bassan away from Credit Suisse to become managing director in São Paulo as part of the group's restructuring of its Latin America business, Bloomberg News reported Feb. 18. According to sources, Bassan would start as managing director next month and will report to Andre Laloni in the Zurich-based firm's investment banking division. UBS is also reported to be hiring new executives in Chile and Colombia.

the massive corruption scandal at state-run oil company Petrobras. Esteves' arrest led to massive outflows of cash as clients pulled their money from the bank. BTG Pactual may repay some of the bailout money that it received in part with financing from the BSI deal, Bloomberg News reported Feb. 22, citing two unnamed sources with knowledge of the deal. The bank also may pursue a plan to buy out shareholders and take the company private, the sources added. BTG Pactual's management is currently negotiating with potential partners in order to receive help in buying the 116.7 million shares that trade in São Paulo, the wire service reported. No final decision has yet been made with regard to the matter, one of the sources said. As of the closing price of BTG Pactual's shares on Feb. 19, the bank's publicly held shares are valued at approximately 1.9 billion reais ($482 million).

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the first lines of defense against potential criminals. For this reason, banks' business departments should also receive comprehensive training, while maintaining adequate communication with the compliance departments. At present, an adequate cooperation among banks in Latin America and the Caribbean does not exist. This being said, under the recommendations and requirements of multinational organizations such as the Organization for Economic Cooperation and Development (OECD) and the Financial Action Task Force (FATF), countries in the region are exploring ways in which they can create channels for sharing information. For example, Panama is evaluating the possibility of creating bilateral agreements to share financial information with the aim of assisting in the prevention of tax evasion worldwide. Countries should consider updating their laws on the prevention of money laundering, given the fact that, in some cases, their current laws are outdated and lax. New regulations to be issued should consider monitoring or increasing supervision over industries that are currently used by criminals to carry out money laundering. It is worth mentioning that the government of Panama enacted a new law on money laundering prevention in late 2015 as part of an action plan toward getting the country removed from the FATF's gray list. This and other actions allowed Panama to successfully be removed from the list this month."

A **Marta García, associate attorney, and Louis V. Martínez, of counsel, at Diaz Reus & Targ, LLP:** "In the past couple of years, both Latin American governments and private businesses operating in Latin America have shown a tendency to become progressively integrated into the global market. Integration to the global market requires these governments and businesses to attract foreign investment, which has created great competitiveness. One key aspect of this competitiveness is compliance. The recent enhanced international standards, which many countries have been adopting in order to secure business in a safe, reliable and stable environment, have resulted in Latin American governments gradually adapting their own compliance-related laws to those of countries with the largest, most attractive markets. However, no matter how

> **"Although the costs can be extremely high, they pale in comparison to the fines that the financial sector has faced in the past couple of years...."**
> **— Marta García & Louis V. Martínez**

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ANTI-MONEY LAUNDERING NEWS

FATF Removes Panama From 'Grey List'

The Financial Action Task Force announced Feb. 19 that it was removing Panama, Algeria and Angola from its so-called "grey list" of countries considered to have deficiencies in their fighting of money laundering. "The FATF

Varela // File Photo: Panamanian Government.

congratulated Algeria, Angola and Panama for the significant progress made in addressing the strategic AML/CFT [anti-money laundering and combating the financing of terrorism] deficiencies earlier identified by the FATF and included in their respective action plans," the intergovernmental organization said in a statement following its Feb. 17-19 plenary meeting in Paris. "Each country will work with its respective FATF-style regional body as it continues to further strengthen its AML/CFT regime." The three countries will now no longer be subject to FATF monitoring, the organization added. In a statement posted to his Twitter account, Panamanian President Juan Carlos Varela said he welcomed the decision. "I am pleased to announce that Panama has come off the FATF gray list thanks to the new era of transparency we are living," said Varela, Agence France-Presse reported. The FATF removed Panama from its "grey list" as a result of the Central American country now meeting the organization's standards in areas such as information sharing, tax compliance and the reporting of suspicious transactions, according to a statement from Panama's Finance Ministry, the wire service reported. Panama has implemented outlawed "bearer shares," which are unregistered equities that whomever physically holds the stock certificate owns. Also, the country created a state agency to fight money laundering in areas including free-tax zones, casinos and currency exchanges.

POLITICAL NEWS

Obama Announces Plan to Close Guantánamo Prison

U.S. President Barack Obama on Feb. 23 announced a plan to close down the detention facility at Guantánamo Bay in Cuba, in a push to fulfill a campaign promise made before his election in 2008. Obama said keeping the prison open would not enhance national security, but rather undermine it. "It's counterproductive to our fight against terrorists, who use it as propaganda in their efforts to recruit. It drains military resources, with nearly $450 million spent last year alone to keep it running and more than $200 million in additional costs needed to keep it open going forward. Guantánamo harms our partnerships with allies and other countries whose cooperation we need against terrorism." In his announcement, Obama detailed a plan to shut down the facility at the U.S. naval base by continuing to transfer select detainees to other countries; reviewing the status of detainees to determine whether continued detention is "necessary"; reforming the military commissions process; and determining with Congress a secure location to hold remaining detainees. The plan does face obstacles, however. Congress has enacted a statute that prohibits military personnel from transferring prisoners from Guantánamo Bay to domestic soil under any circumstances, and Congressional Republicans have shown little interest in lifting the ban, according to The New York Times. Those in opposition to the plan have cited security risks to bringing detainees to the United States, while others have argued

"It's counterproductive to our fight against terrorists, who use it as propaganda in their efforts to recruit."

— Barack Obama

RESEARCH ALERT

Remittances to Latin America, Caribbean Rise 6 Percent to Surpass $65 Billion

By Gene Kuleta

WASHINGTON—Remittances to Latin America and the Caribbean grew 6 percent last year, surpassing $65 billion, with the most growth seen in countries that are experiencing high rates of violence and conflict, and also due to higher levels of international migration, according to a **report** by the Migration, Remittances and Development department of the Inter-American Dialogue. Guatemala experienced the largest increase in remittances last year, a 15.2 percent increase year-on-year, for a total of $6.29 billion. Remittances to the Central American country make up 9.9 percent of its gross national product, according to the report, which drew on sources including central bank data from individual countries as well as World Bank data and estimates of the report's authors for last year's fourth quarter. After Guatemala, Colombia saw the largest percentage increase in remittances for 2015, a 13.3 percent rise to $4.64 billion for the year. The money transfers to South America, though, accounted for just 1.1 percent of the country's GDP. The country with the third-largest increase in remittances for last year, Haiti, recorded an increase of 11 percent to $2.2 billion. Remittances also accounted for 22.7 percent of the impoverished Caribbean nation's GDP, the largest percentage in the study. "At first glance, these increases are predominantly taking place in countries that display conflict, violence or poor governance, accompanied by slow economic growth in some cases," said the report, by Manuel Orozco, Laura Porras and Julia Yansura. Conflicts in migrants' home countries seems to be spurring emigration, which in turn leads migrants from those countries to send more money back home, said the report. Remittances to Mexico and Central America represent almost two-thirds of all remittance flows to Latin America and the Caribbean and "have experienced important increases over the past 10 years," said the report. Mexico and Central America saw significant increases during the 2008-2009 recession. In Mexico, growth in money transfers has mainly been related to the frequency that migrants send money back as well as exchange rate fluctuations and continued migration. Money transfers to the country have continued increasing over the last three years and last year totaled $24.7 billion, an increase of 4.8 percent as compared to 2014, according to the report, which added that remittances make up 1.9 percent of Mexico's GDP. Net annual migration from Mexico has declined as a result of deportations and apprehensions at the U.S.-Mexico border, the report said. However, it added that there has been "a continued inflow of migrants entering after the recession."Most of the growth in remittances region-wide is related to increases in money transfers to Central American countries, particularly Guatemala, El Salvador, Honduras and Nicaragua, according to the report. "While each country is slightly different, increases in remittances to Central America are generally related to migration from the region caused in large part by poor economic performance and violence," the report said. "Violence is generally measured in terms of intentional homicides. However, our research shows that other forms of violence, including extortion, may be equally if not more important in terms of driving international migration." [Editor's note: See **Q&A** on remittances flows to the region in the Jan. 28-Feb. 10 issue of the Financial Services Advisor.]

NEWS BRIEFS

Rousseff's Campaign Strategist, Wife Surrender to Authorities

Brazilian President Dilma Rousseff's campaign strategist, João Santana, and his wife, Mônica Moura, turned themselves in to authorities on Feb. 23 after a warrant for their arrest was issued on Monday as part of the massive Petrobras corruption probe, The Wall Street Journal reported. Prosecutors allege the couple's consulting company received approximately $7.5 million in bribes from 2012 to 2014 that were diverted from state-run oil company Petrobras. Santana has called the accusations baseless, and he and Moura have denied wrongdoing through their lawyer.

OAS-Backed Anti-Graft Panel Begins Work in Honduras

An anti-corruption panel backed by the Organization of American States was formally installed Feb. 22 in Honduras, the Associated Press reported. The Support Mission Against Corruption and Impunity in Honduras will comprise Honduran officials as well as 30 foreign investigators, judges, prosecutors. Former Peruvian Justice Minister Juan Jiménez is the group's leader.

Colombia's Santos Suspends Visits by FARC Negotiators

Colombian President Juan Manuel Santos suspended visits by FARC negotiators from Cuba to Colombia, saying negotiators breached an agreement that allowed them in the country to explain the details of the negotiation process to rebels, Agence France-Presse reported Feb. 19. Two top commanders on Feb. 18 appeared with weapons in the main plaza of a town on the Venezuelan border, which the government said violated an agreement between the two groups, The New York Times reported.

that detainees should be transferred to military prisons, rather than civilian facilities. The White House has not said whether Obama will take executive action to close the prison if negotiations with Congress do not lead to the facility's closure.

Bolivian Officials Confirm Morales Referendum Defeat

Bolivian election officials confirmed Feb. 23 that voters rejected a bid by President Evo Morales to change the Constitution in order to run for an unprecedented fourth term, The Guardian reported. With 99.5 percent of the ballots counted from Sunday's referendum, 51 percent had voted against allowing a fourth term, while 49 percent had approved it. The result also bars Vice President Álvaro García from running again. If approved, the ballot measure could have led Morales to run for re-election in 2019 and potentially remain president until 2025. He first took office in 2006. [Editor's note: See **Q&A** on the referendum in the Feb. 23 issue of the Latin America Advisor.].

ECONOMIC NEWS

Mexico's GDP Grows 2.5 Percent in Q4

Mexico's gross domestic product grew 2.5 percent in the fourth quarter, bringing the country's economic growth to 2.5 percent for the full year, the National Statistics Institute announced Feb. 23, The Wall Street Journal reported. Mexico's economic expansion in 2015 marked its fastest growth in three years. Economic growth slowed slightly from the third quarter as the industrial sector struggled, partially offsetting greater economic strength in services, according to the statistics institute. For all of 2015, services grew 3.3 percent as compared to the previous year, while industrial output grew 1 percent and agricultural production increased 3.1 percent.

Argentina Reaches Deals With More Bondholders

Argentina's government has reached agreements with so-called "holdout" bondholders for $250 million and also for 185 million euros, the Associated Press reported Feb. 22, citing court-appointed mediator Daniel Pollack. The latest agreements with bondholders, who refused to accept debt restructurings following the country's massive default in 2001, bring the value of deals to $1.5 billion since President Mauricio Macri took office in December. The settlements announced Monday include bondholders Lightwater Corp, Old Castle Holdings, VR Capital, Procella Holdings and Capital Ventures International, said Pollack.

Macri // File Photo: Argentine Government.

Moody's Strips Brazil of Investment-Grade Rating

Moody's Investors Service announced Feb. 24 that it is stripping Brazil of its investment-grade status, making it the third of the three major ratings agencies to lower its rating for Brazil to junk status. Moody's said it was downgrading Brazil's issuer and bond ratings to Ba2 with a negative outlook. The ratings agency said the downgrade was the result of "the prospect of further deterioration in Brazil's debt metrics in a low growth environment, with the government's debt likely to exceed 80 percent of GDP within three years," and also the country's "challenging political dynamics."

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attractive the market may be, complying with anti-money-laundering regulations is a highly complex and expensive task. But, although the costs can be extremely high, they pale in comparison to the fines that the financial sector has faced in the past couple of years for violating anti-money laundering regulations. To this end, KYC compliance systems help reduce the costs, while offering very attractive compliance solutions such as built-in risk rating engines to calculate customers' current risk ratings, collect related-party information to highlight relationships and connections among customers and other parties of interest, and support in multiple languages. The KYC systems have been praised and implemented worldwide. However, KYC systems could significantly improve and see a significant reduction in costs if the financial industry collaborated globally, creating commercially viable standards that all financial institutions worldwide could apply."

A **Adalberto Palma Gomez, senior partner at Aperture S.C. in Mexico City:** "This registry in an important way simplifies verification using a single medium so that financial entities can perform due diligence relating to their counterparts. At the same time, it advances the exchange of information and continuous feedback from supervisory bodies. In Latin America, there are efforts relating to the exchange of information with correspondent banks. Nevertheless, mechanisms should be established in order to exchange information with more efficiency as diverse regulations in each country currently limit such exchanges. Finally, even with global standards, the challenge is adapting to the regulations of each country in order to not wind up with irregularities, violating bank secrecy and other rules. So it is in that area where work must be done in order to achieve a more expedited exchange of information."

> **"Mechanisms should be established in order to exchange information with more efficiency."**
> — Adalberto Palma Gomez

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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